

**USAID/Russia
Results Report
Resource Request**

1997 - 1999

March 11, 1997

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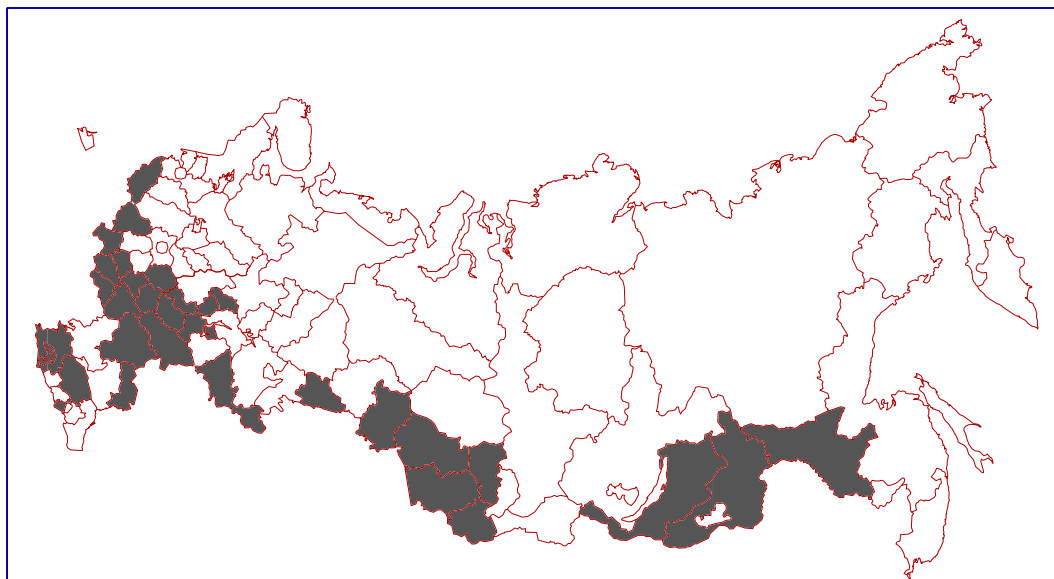
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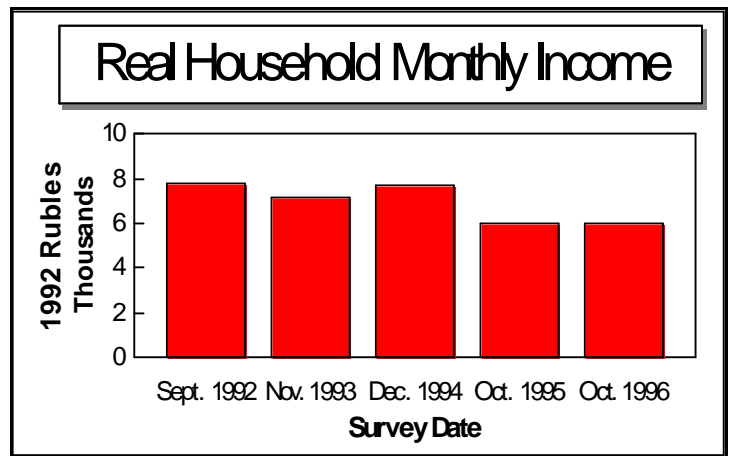
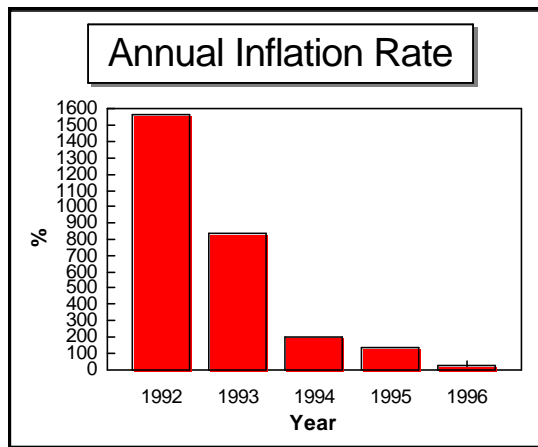
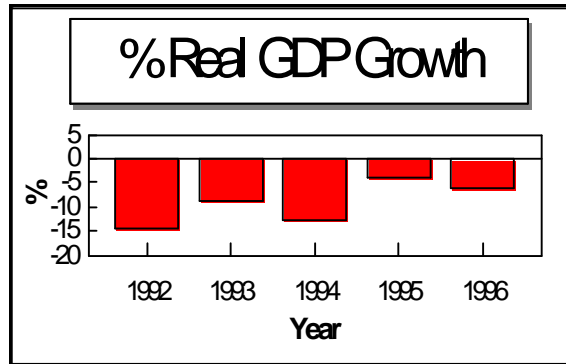
R4 Approval Cable, 1996
Detailed Budget
Websites
New Activity Descriptions

ACRONYMS AND ABBREVIATIONS

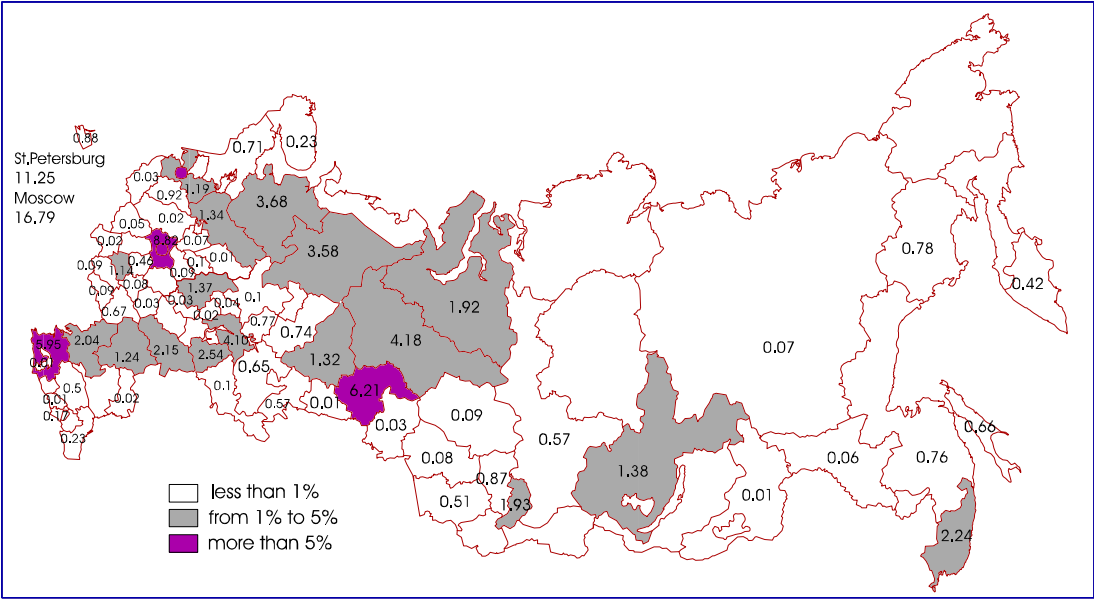
AARW	Alliance of American and Russian Women
AIHA	American International Health Alliance
BCC	Business Collaboration Center
BSI	Business Support Institution (e.g., Business Support Center, Training Center, etc.)
CBR	Central Bank of Russia
CDC	Citizens Democracy Corps
CDI	Community Development Initiative
CEC	Central Election Commission
EBRD	European Bank for Reconstruction and Development
EECIP	Energy and Environment Commodity Import Program
FMA	Financial Management Analysis
F DI	Foreign Direct Investment
GCC	Gore-Chernomyrdin Commission
GMP	Good Management Practices
HIID	Harvard Institute for International Development
IBS	Independent Broadcast System
IESC	International Executive Service Corps
I FES	International Foundation for Electoral Systems
ILBE	Institute for a Law-Based Economy
IRI	International Republican Institute
IRIS	Institutional Reform and the Informal Sector
IRS	U.S. Internal Revenue Service
LG	Local Government
IBS	Independent Broadcast System
MDP	Media Development Program
NGO	Nongovernmental Organization
OE	Operating Expenses
OI	Opportunity International
PIES	Program for Intensive Enterprise Support
PFF	Partnership for Freedom
PLR	Policy, Legal, and Regulatory
RAPIC	Russian-American Press and Information Center
RFE	Russian Far East
RII	Regional Investment Initiative
ROLL	Replication of Lessons Learned
RSA	Russian Society of Appraisers
SEC	Subject Election Commission, also the U.S. Securities and Exchange Commission
SO	Strategic Objective
SPAN	Sustaining Partnerships into the Next Century
STI	State Tax Inspectorate
STS	State Tax Service
SPAN	Sustaining Partnerships into the Next Century
SUNY	State University of New York
TUSRIF	The U.S.-Russian Investment Fund
UES	United Energy System
USEA	U.S. Energy Association
WB	World Bank

**Presidential Election Results, July 1996, Yeltsin vs Zyuganov
(Zuyganov - shaded regions)**





Gross Investment In Joint Ventures and Foreign Owned Firms,
In 1995, by Region



I. RUSSIA IN 1996 -- FACTORS AFFECTING PROGRAM PERFORMANCE

The big story in Russia in 1996 was the **re-election of President Yeltsin**. Following the Duma elections of December, 1995, in which a majority of seats were captured by the communists, the pro-reform candidates started out the year in a weakened position. They regrouped and realigned forces as the campaign progressed and, in the end, the July run-off was between the communist Zyuganov and the incumbent Yeltsin. 54 percent of the votes went to Yeltsin, a solid if not overwhelming endorsement for accelerated economic and political reform. The level of open political debate was unprecedented in Russia's history. The nearly 70 percent voter turnout underscored the progress made in defining Russia as a democratic nation. Unfortunately, the President was not able to take advantage of his renewed mandate. Having suffered a heart attack during the last weeks of the campaign, he spent the rest of the year on the sidelines. The lack of vigorous leadership contributed to an atmosphere of political and economic uncertainty which persisted until early 1997.

Economic institutions proved themselves in 1996 to be capable of providing **sound economic management** and leadership, but business confidence was dampened by the political uncertainty. One of the major achievements was the Central Bank of Russia's tight control on monetary policy. This resulted in a continued steep decline in the inflation rate -- to 22 percent for the year as compared to 131 percent in 1995. The Federal Commission on the Securities Market also maintained a steady hand on the regulatory side and trading was active. The index of stocks listed on the Russia Trading System grew from 83 on December 30, 1995 to 200.5 one year later. The international business community, which spent much of the year in a wait-and-see mode, rallied toward the end of the year and some began to increase investments in Russia. Foreign direct investments were somewhat lower than in 1995, but portfolio investments increased.

Official GDP, however, dropped by six percent rather than growing slightly as expected. Production in all sectors was affected. Restructuring of the vast majority of firms privatized in 1994-95 stagnated in 1996; a large increase in tax and wage arrears reflects this. The government's revenue performance was significantly below expectations and low revenues translated into low rates of federal expenditures and transfers to local governments. Overall, only 81.5 percent of budgeted expenditures were actually made. At the local level, pressure was particularly intense on the budgets for social services (housing, health, and education) which make up the majority of local government expenditures.

Household incomes were slightly higher at the end of 1996 than they were at the end of 1995. This would indicate some growth in the economy, probably in the under-reported new and small business sectors. But increases were skewed toward the higher-income households; the rate of poverty, therefore, increased from an estimated 30 percent of households to 36 percent. Wage arrears also grew. More than 50 percent of working-age adults were owed back pay compared to less than 40 percent in 1995. A 22 percent increase in unemployment affected both men and women. Womens' unemployment was nearly 10 percent compared to 8.8 percent for the population.

In sum, there were positive signs of progress toward building a democratic political system and a market economy in Russia in 1996. While this electoral year clearly engaged the majority of the population in the democratic process, participation in -- and benefits from -- the economic reforms must be increased if the economic and democratic transitions are to be sustainable.

Results Framework: SO Accomplishments Ranked

Comments

Score

Strategic Objective 2.1 Increased, Better Informed Citizens' Participation in Political and Economic Decisionmaking	83	This SO contributes significantly to the Agency's "Building Democracy" program. It is a high priority for the ENI Bureau. 1996 achievements with regard to free and fair elections and independent media growth were outstanding.
Strategic Objective 1.3 Accelerated Development and Growth of Private Enterprises	73.75	Private sector development plays a strong role in the Agency's Broad-Based Economic Growth Goal. It is a high priority for the ENI Bureau. Although the overall Russia environment for accelerated private sector development could be improved, USAID/Russia activities supporting commercial law development, the formation of a functioning land and real estate market, restructuring of privatized firms, and the development of a Business Support network have all been on or above target.
Strategic Objective 1.4 A Robust and Market-supportive Financial Sector	70	Economic Growth Goal. Capital markets development is a major success story for USAID/Russia and 1996 has been a year of accomplishment. Banking sector reform, in which USAID is only one of the key donors, has progressed well. As other donor support for capital markets comes on-stream, ENI has reduced USAID funding available for this objective.
Strategic Objective 3.3 Increased Capacity to Deal with Environmental Pollution As a Threat to Public Health	66	Contributes to Agency Goal: Protecting Environment. Much of what USAID doing at the "grassroots level" is changing the way people think as well as the way they do business. This will ultimately result in policy changes. Mission articulation of SO is at lower level than Bureau SO.
Strategic Objective 3.2 Improved Effectiveness of Selected Social Benefits and Services	65	This SO makes an important contribution to the Agency Goal: Stabilizing World Population Growth and Protecting Human Health. Within the ENI program, health has a lower profile than other programs. However, Russia actions doing well and achieving targets on the regional level.
Strategic Objective 2.2 Legal Systems That Better Support Democratic Processes and Market Reforms	63	Work under this SO develops legal basis for trade and investment and support the rule of law, a key goal of the Freedom Support Act and a major element of the Agency's Economic Growth goal in Russia. Legal reform is a high Bureau priority. With a recent Government decision to create an independent judiciary, great potential exists to reform the Russian legal system over the next two years.
Strategic Objective 1.2 Tax System Reformed to Correspond to a De-centralized Market Economy	61	SO supports Broad-Based Economic Growth. Major tax laws were not adopted this year as expected. Achievement of other targets progressing. High USG and Bureau priority put on fiscal reform.
Strategic Objective 1.5 A More Economically and Environmentally Sound Energy System	45.5	Low Bureau priority, high GCC priority - restructuring and investment opportunity important. Many targets hit. Sector Restructuring plans advancing. Introduction of competition and improved energy efficiency active under two Agency Goals: Broad-Based Economic Growth and Protecting the Environment.
Strategic Objective 2.3 More Effective, Responsive and Accountable Local Government (LG) in Selected Cities	38	Tied to Agency Democracy Goal. It is not a high Bureau priority. USAID/Russia proposes folding LG activities into SO 2.1, 1.3 and 3.2 for greater impact.

II. PROGRESS TOWARD OBJECTIVES - GENERAL OVERVIEW

The Emergence of a Competitive, Market-Oriented Economy

USAID/Russia's active portfolio of support for economic restructuring was most effective in promoting growth of small and new businesses, sustaining sound expansion in the securities market, consolidating gains made in housing and real estate market development and in farm reorganization, and sustaining a productive team of consultants for the development of an adequate legal and regulatory framework for a market economy. Tax reform, while at the top of the business agenda in Russia and an important initiative for USAID, made sporadic progress; the recurrent revenue crises detracted from the pace of reform. Crime and corruption issues received attention in several USAID activities, but remained a long way from being solved. Restructuring of the electric power sector, expected to be a major attraction for private investment by year's end, was slowed as RAO EES Rossii demonstrated increasing reluctance to give up its monopoly. Restructuring of medium to large-scale privatized enterprises stagnated, beset by problems of corporate governance as well as inadequate capital. While phasing out most direct support, USAID emphasized translating the experience gained in firm-level consulting into learning materials -- or "toolkits" -- which can be used by other firms addressing similar problems. Demand for the toolkits has grown beyond USAID's capacity to meet it, indicating promising prospects for commercial sustainability.

The Empowerment of Citizens through Democratic Processes

IFES support to the Central Election Commission and, in turn, to regional Election Commissions contributed to free and fair elections in this critical year for Russia's democracy-building efforts. Political parties functioned more efficiently in these elections than in the past, successfully applying lessons taught by NDI and IRI on recruitment and voter education methods. Independent media benefited from training and advisory services provided by Internews and RAPIC to more than 90 companies across Russia. The Media Development Program partnerships extended "media support" in new directions -- an electronic newspaper in Vladivostok, a business press agency in Moscow. NGO training in management and fundraising was delivered through a variety of activities; the launching of local actions affecting the environment, elections, disabled access, local budget formation, and other issues reflects the impact of training as well as small grantmaking. Local governments (including Moscow) held town meetings and opened budget discussions up to local citizens. NGOs continued to play an active role in advocacy for women's rights.

Strengthen the Capacity to Manage the Human Dimension of the Transition

Seeds were planted for national level policy reforms in the health, agricultural, and environment sectors. Pilot projects provided on-the-ground experience for Russians on innovating environmentally-clean manufacturing technologies and managing natural resources in new ways. The dissemination seminar which kicked off the ROLL activity attracted more than 120 experienced professionals committed to replicating environmental best practices elsewhere. New methods of health care delivery and financing were successfully piloted in four oblasts in Siberia and in the oblasts of Tver and Kaluga. USAID's start-up of two new health reform activities in 1996 is extending these experiments into new areas and at the national level. Local-level farm reorganization efforts began to produce results by year's end and to have an impact on national agricultural leadership. Production increases and farmers' incentives are now clearly viewed as related to increased private ownership and control of farmland and farm assets.

II. PROGRESS TOWARD OBJECTIVES -- HIGHLIGHTS

US Training Pays Off...

In the summer of 1996, a Barents tax administration advisor traveled to IRS headquarters in Washington with staff from the Novosibirsk Oblast State Tax Inspectorate (STI). A follow-up trip to Novosibirsk found that, based solely on their training at IRS, the STI had: established a new, more efficient management structure, developed new audit selection methodology, increased the efficiency of personnel management, and organized a Department of Public Information which had already invited the media to their offices and secured greater coverage on the new and public-oriented tax service.

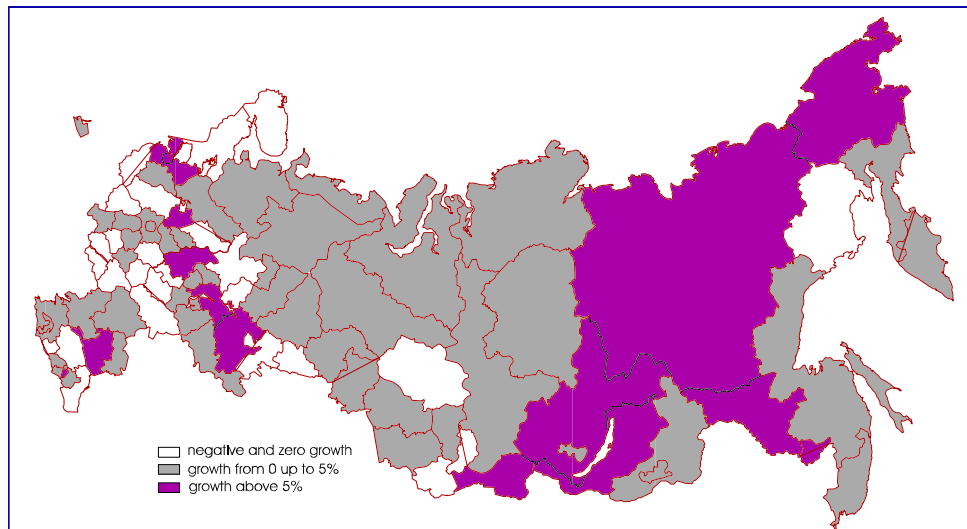
US Forestry Techniques catch on..

USAID supported the production of 420,000 new seedlings in two greenhouses in the Russian Far East. This represented a 50-fold increase in the number of seedlings produced compared to the year before. The seedlings were produced in containers --making chance of survival much greater than those produced under the bare root system previously used in Russia. In the words of one Russian Forest Service official, “ We are finally learning how to produce quality seedlings to the magnitude that our ecosystem requires instead of barely enough for one or two natural reserves.”

Women’s Cooperatives mean new sustainable jobs...

A women’s cooperative lending program in Arzamas has made over 750 loans and 98 percent have been paid back on-time. USAID grantee Opportunity International reports that this project is already self-sufficient and, as a result of the credit assistance, client incomes have multiplied five times, more than 160 jobs have been created, new donors and investors have joined in and the regional administration will replicate a similar approach on a region-wide level.

**Growth in Number of Registered Small Businesses
July 1 - December 31, 1995**



II. PROGRESS TOWARD OBJECTIVES -- CHALLENGES AND OPPORTUNITIES

The FY 97 budget approved in the April, 1996, R4 for USAID/Russia projected a level of \$100.4 million, including \$8 million for the Eurasia Foundation and \$20 million for Enterprise Funds. The actual FY 97 budget being implemented as this R4 is being written is \$53.6 million, a cut of 47 percent. To accommodate the budget challenge, USAID/Russia: revised its priorities for FY 97 funding; planned maximum use of prior-year funds, including deobs/reobs, to cover priority programs; and planned for more rapid closeout of activities in several areas. The assumption that FY 98 would be the last year of new, and quite low, funding for USAID activities began to be applied informally in forward planning processes.

In early FY 97, the Clinton Administration proposed a "Partnership for Freedom in the NIS" as a new initiative to help the region's economies move from stability to growth and to establish lasting ties between Americans and the people of the NIS. An extended period for active USG assistance -- for as long as ten years -- is also part of the PFF vision. In USAID/Russia's view, the PFF represents an enormous opportunity to build upon the results already achieved. It will help to ensure the attainment of long-term goals important to both Americans and Russians:

- a strong trade and investment relationship between the US and Russia; and
- a democratic society in which all Russians participate.

USAID has always pursued a two-pronged strategy in Russia, working simultaneously with national authorities and "grassroots" organizations to accelerate the transition process. This will continue under the PFF, as, for example, the national issue of tax reform remains a major challenge. USAID proposes, however, to place even greater emphasis on the "grassroots" in the PFF. Modalities of operation will change as well, giving priority to the development of sustainable trade and investment linkages between American and Russian companies and fostering mutually-beneficial partnerships between American and Russian nonprofit and nongovernmental organizations.

In this R4, we make the link between the present and the future, without, at this time, having clear indications that the Administration's proposal for the PFF will be endorsed by Congress. One short example illustrates how USAID/Russia hopes to link experience and accomplishments to date to a reoriented PFF program.

Regional investment: USAID seed money has supported the start-up of more than 200 business support institutions (BSIs). They are now well known in the regions and finding growing demand for their services. Because USAID's support has been cut more rapidly and deeply than anticipated, many BSIs are facing costs higher than their revenues. The BSIs' main challenge is to develop a diverse, fee-paying customer base; they are responding with a variety of aggressive tactics. There are, however, additional challenges, e.g., to provide quality services that grow in sophistication and skill level as their customers' business know-how and skill levels increase. This requires continued staff training. And they need to forge partnerships with financing organizations willing to lend to small businesses, addressing both capital and information needs. USAID will soon launch a Client-Oriented Business Volunteer Program in which BSIs as well as private business firms are targeted as clients; this should help to assure development of quality services. Financing needs can be met in only small part by existing investment funds and the current reach of leasing programs is limited. Expanded leasing and microfinance programs are PFF proposals to address the problem.

SO 1.2 Tax System Reformed to Correspond to BASELINE

Tax rates are high, discouraging private investment. Fixed capital formation as a percent of GDP was 23.8% in 1993, 17.7% in 1995.

Capital flight is encouraged. Net capital outflow was \$28.4 billion in 1994 and \$8.3 billion in 1995.

Rates of compliance are reflected in tax arrears and collection rates:

- Tax arrears as a percentage of taxes assessed were 7.8% in 1995.
- Collections were 38% of GDP in 1993 and 27% in 1995.

Percentage of tax revenue at the local (non-federal) levels as a percentage of overall revenues was 57% in 1995.

1996

Fixed capital formation was 11.6%, down 6 points.

Capital account of balance of payments showed slower outflow. The net capital outflow was \$7.5 billion dollars.

Compliance worsened:

- Tax arrears as a percentage of taxes assessed were 20% , up 12 points.
- Level of total government revenue as a percentage of GDP was 25% , down two points.

Five Oblasts passed tax simplification laws for small business

Percentage of tax revenue at the local (non-federal) levels as a percentage of overall revenues decreased to 55.8% in 1996, down one point.

RESULTS REPORT

There is no understating the importance of a tax regime which is fair, efficient, and provides a stable revenue source for necessary government expenditures in the development of a market economy. USAID-funded advisors, under the overall coordination of the Harvard Institute for International Development (HIID), supported efforts at the national level on several aspects of tax reform throughout 1996: policy; legislative drafting; analysis, modelling, and revenue estimation; and tax administration. The U.S. Internal Revenue Service provided training to counterparts in the Russian State Tax Service (STS). The impacts of these system-wide efforts both on taxpayers and investors as well as on overall public fiscal management are still largely in the future.

Under Ministry of Finance/STS guidance, the first part of a **new Tax Code** was introduced into the Duma in 1996 but has not yet received full consideration. **However, tax-specific legislation enacted or implemented in 1996 was useful in addressing key issues.** The elimination of the excess wages tax on Jan. 1, 1996 had a positive impact on businesses. Closure of several exemption loopholes had a positive impact on revenue collections.

Still, revenue performance in 1996 was well below expectations and rates of avoidance and non-compliance were high. USAID advisors lent a hand in proposing **short-term adjustments to current tax law and administrative procedures** which would help to address the revenue shortfalls. Arrears collection measures and a system for targeting audits to large firms were developed. A requirement and system for use of invoices for allowable VAT deductions was introduced and became effective in Jan. 1997.

At the local level, the city administrations of Tver and Novgorod moved ahead to develop the real estate cadasters and regulations needed to implement a **market-value-based property tax system.** The new tax would replace three current taxes, promote more investment in real estate and be more efficient to collect. A law approving the entire pilot implementation (through collection, taxpayer claims, etc.) is being sought from the Duma and passage is expected in May, 1997.

Decentralized Market Economy

RESOURCE REQUEST

The **FY 98 request** level in the 1996 R4 was just \$4 million, with a zero level proposed for FY 99. Given the continued priority which tax reform has for investors and economic growth and the slow progress on reform to date, USAID/Russia proposes to increase tax reform technical support to \$5 million for FY 98, and to increase FY 99 funding to \$1.5 million.

Future USAID assistance in Russia will concentrate on: improvements of practices in tax administration and the passage of a Law on Tax Administration; passage (modifications) of the Tax Code and its implementation. At the local level, emphasis on property taxes and other local revenue sources as well as simplified small business taxation are likely to be other areas of sectoral activity.

PFF OPPORTUNITIES

Under the Partnership for Freedom, the tax reform program will be similar in terms of focus but will change significantly in terms of funding, to a request level of \$9 million in FY 98 and \$8.5 million in FY 99. This will permit a greater level of advisory and training effort to be provided. As noted, reform of the current tax system will **remove a key impediment to trade and investment.**

Additional support might also be directed to tax administration and local taxation issues, including property tax implementation, in specific regions associated with the Regional Investment Initiative which is part of the PFF concept.

RESOURCES TO DATE

FY 92: \$1.5 million
FY 93: \$3.0 million
FY 94: \$11.1 million
FY 95: \$7.1 million
FY 96: \$3.1 million (nic HIID)

As of 9/30/96:

Total obligations: \$25.9 million

SO Pipeline as of 9/30/96: \$3.9 million

Activities with pipeline > 12 months:

CFED

PROPOSED LEVELS

December Review Levels:

FY 97: \$5,750,000

FY 98: \$5,000,000

FY 99: \$1,500,000

PFF Scenario:

FY 97: \$5,750,000

FY 98: \$9,000,000

FY 99: \$8,500,000

PFF ACTIVITIES

\$ millions	FY 98	FY 99
Tax policy, coordination	4	4
Tax administration, trng	2	2
Econ analysis, rev estimation	2	2
Property tax	1	0.5

SO 1.3 Accelerated Development and BASELINE

Production by entirely privately-owned firms is estimated to be 20% of GDP in 1995. Production of firms which are predominantly private in ownership but in which the state retains some share is 70% of GDP in 1995.

Percentage of household income from formal private sector sources:

22.6% in February 1992

29.3% in November 1993

34.1% in December 1994

32.3% in October 1995

New business registrations as of July 1, 1995, were 857,000.

1996

Production by entirely privately-owned firms increased to 28% of GDP. Production by firms privately-owned but with some state participation is 72% of GDP.

Percentage of household income from formal private sector sources increased to 43%.

New business registrations at the beginning of 1996 were 877,000, an increase in the last half of 1995 of 2.4%. Data are not yet available for 1996.

RESULTS REPORT

Private sector business development is the heart of the U.S. government's effort to support Russia's creation of a competitive market economy. In 1996, throughout Russia's regions, USAID-funded organizations worked side-by-side with thousands of ordinary Russians as well as with the local and national government officials who must establish the legal, regulatory, and institutional framework necessary for markets to work. Most Russians became stakeholders in the economy in the privatization program of 1993-94 as they acquired and invested vouchers in company stock or as they founded new businesses in the newly-liberalized environment. The number of Russians who have the entrepreneurial and competitive spirit necessary to spark the regrowth of old companies and to build new ones on the basis of ideas is still growing. They are key customers for USAID support.

Some support has been targeted directly to businesses, new ventures as well as privatized (formerly state-owned) companies. This resulted in new marketing opportunities, increased foreign investment, and a new level of appreciation of the challenges of market competition. In 1996, the experience gained in these programs was built into a skills-transfer training package known as **toolkits**. The demand for these Russian-reality-based toolkits is high.

USAID support is also indirect, extended through the 200 or more Business Support Institutions (or BSIs) that provide training, advisory services, and business contacts to a client base of entrepreneurs and business associations. While tracking numbers are difficult to verify, some **5,000 new businesses** are reported to have resulted from BSI services to date.

Progress has also been made in privatizing **housing** and expanding **enterprise land sales**. Details on these areas are reported in sections which follow.

Nevertheless, **the pace of business development in 1996 was not as rapid as hoped**. Interest rates fell due to monetary and fiscal reforms but did not translate into greatly expanded lending for business investment or restructuring activities so access to capital remained a problem,

particularly for small and micro enterprises. Tax burdens (see SO 1.2), lack of market information/experience, managers' resistance to new standards of corporate governance, gaps in the legal and regulatory framework, inadequate law enforcement , and uncertain ownership rights to assets continued to impede business growth.

Growth of Private Enterprises

RESOURCE REQUEST

FY 98 and FY 99 requests in the approved 1996 R4 for this Strategic Objective totalled \$13 million (not including TUSRIF, EBRD, and Eurasia small business support grants -- all reported as Special Initiatives, SO 4). With SO 1.3 resources, it was proposed to continue minimal levels of micro- and small enterprise support, business volunteer assistance and legal reform support. Drastically reduced levels and support for only a few organizations was projected for FY 99. All other activities were to close out with the FY 98 funding.

As a result of the December 1996 program review in Moscow, it was agreed that FY 98 funding requests would be adjusted upward to \$12 million and to \$5 million in FY 99. Focus would be increased, with funding only for four activities: legal reform, the new Client-Focussed Business Volunteer Program, University of Alaska business training/development activities in the Russian Far East (RFE) and the CDC-managed Business Collaboration Center (BCC) which networks BSIs.

PFF OPPORTUNITIES

The PFF presents a significant opportunity for implementing a refocussed business development program. The **Regional Investment Initiative** (RII) which has been proposed as part of the PFF would permit targeted implementation of a number of approaches to business development. Another possibility is an expanded scale of effort from the Business Volunteer Program in training Russian company managers, with an increased emphasis on the development of joint ventures and trade relationships with U.S. firms. A stepped-up level of effort in the regions would also benefit from a greater investment in networking among regions. And the PFF would permit USAID to launch a new Microenterprise Finance Initiative, which would build on the successful experience with business incubators, leasing, and group lending -- so far limited to only a few sites. Details of the proposals follow with as indicated in the listing on the right.

RESOURCES TO DATE

FY 92:	\$ 14.3 million
FY 93:	\$ 76.1 million
FY 94:	\$198.1 million
FY 95:	\$ 89.8 million
FY 96:	\$ 37.2 million

As of 9/30/96:

Total obligations: \$415 million

SO Pipeline: \$80 million

PROPOSED LEVELS

December Review Levels:

FY 97:	\$ 16.29 million
FY 98:	\$ 11.95 million

FREEDOM SUPPORT ACT

FY 99:	\$ 5 million
PFF Scenario:	
FY 97:	\$ 16.29 million
FY 98:	\$ 38 million
FY 99:	\$ 31 million

PFF ACTIVITIES

'\$ millions	FY98	FY99
<i>In SO 1.3</i>		
Regl Inv Initiative	20	15
Client-Foc. Vol Assistance	10	10
Busines Collab. Center	2	2
Real Estate (WB Loans)	2	2
Natural monopoly regulation	1.5	1
RFE Enterprise Development	1.5	1
Program admin	1	--
<i>Added to SO 1.4</i>		
Microenterprise finance	6	6
<i>Now In SO 2.2</i>		
Legal reform	3	2
<i>Joint Support Activities (non-add for USAID)</i>		
GCC Business Committee	2	1.5
GCC Agriculture	3	0

SO 1.3 Accelerated Development

IR 1.3.1 Policies, Legislation and Regulations (PLR) Conducive

BASELINE

Foreign Direct Investment (FDI) in Russia was \$13.50 per capita in 1994.

57% of USAID/Russia's agenda of targeted policy, legal, and regulatory reform (PLR) in multiple sectors (including environment, firms, land, housing) passed through the legislative branch and was signed into law in 1995.

Public opinion towards market-oriented macroeconomic principles improved by 32.5% -- as tracked by a survey in 1995.

1996

FDI in Russia decreased to \$5.40 per capita.

In 1996, 72% of the PLR agenda was signed into law, including Part II of the Civil Code.

Public opinion towards a market oriented economy improved again in 1996. 36% of people surveyed indicated by July, 1996 answered positively to questions on the macro-economy.

RESULTS REPORT

Legal drafting support funded by USAID contributed to continued conceptualization, writing, and passage of key laws and regulations needed to establish the framework for market development and the rule of law. Efforts were sustained on three fronts: the Harvard Institute for International Development (HIID) program, implemented jointly with the Institute for Law-Based Economy (ILBE) and the Russia Privatization Center, addressed the broadest range of *commercial law development* needs, responding directly to the requests of a special Duma/Government Coordinating Committee; the Univ. Of Maryland IRIS program focussed on *laws and regulations for natural monopolies* and was carried out with the Ministries of Finance and Economy, the Anti-Monopoly Committee, the technical Ministries involved, and, in the energy area, other USAID contractors working on power sector regulation; the Urban Institute worked with the Russian Institute for Urban Economics, the Ministry of Construction, and the State Property Committee (as well as with HIID/ILBE/Rural Development Institute staff) in the areas of *land market legislation, real estate and housing law and regulation, and property taxation*.

Key legislation developed and passed in 1996 included the Federal Law on Securities, the Law on Non-Commercial Organizations, Law on Financial-Industrial Groups, and the Joint Stock Company Law. The Law on Mortgages was submitted to the Duma. A Land Code that limited private ownership was debated in the Duma but was not passed, a positive outcome given its anti-market stance on private ownership.

Enforcement of the new laws increased as a concern occasioning increased coordination with other elements of the USG program. With USAID support, ILBE undertook an analysis of the situation in Nizhny Novgorod, identifying key enforcement problems for which test solutions will be developed.

The Russian public's knowledge of and attitudes toward free market principles continue to change positively, reflected by the Presidential vote as already noted. While the majority of the population are not yet benefiting from economic reform in real income terms, the historical distrust of business and private sector activities appears to be lessening, particularly as more and more individuals themselves become actors in the new market economy.

and Growth of Private Enterprises to Broad Based Competition and Private Sector Growth Adopted

RESOURCE REQUEST

The April, 1996 R4 request for policy, legal, and regulatory reform in FY 98 was only \$2 million; no funds were requested for FY 99. World Bank loan support for the legal drafting, training, and information dissemination work which USAID has supported to date was expected to come on line in 1997. USAID did propose to continue support for "rule of law" under SO 2.2, at a level

of \$2.5 million in FY 98 and \$2 million in FY 99, largely reflecting an expectation that additional training and enforcement-related work (e.g., development of a marshal's service to enforce court decisions, innovation of alternative and legal dispute resolution mechanisms) would be essential to realizing the impact of PLR work completed to date. No FY 98/99 funding for advisory services regarding natural monopoly regulation was planned. Under a constrained budget for FY 98, however, the Mission has been forced to trim its legal reform program further: \$2 million in FY 98 for continued legal reform work, particularly focussed on commercial law, and just \$1 million to rule of law/enforcement-related activities. General policy advisory services have been eliminated.

PFF OPPORTUNITIES

Given the importance that investors place on adequate law and regulation as well as increased control of crime and corruption, a PFF program which emphasizes economic growth and U.S. investment in Russia must also ensure that necessary steps are taken to assure an appropriate legal framework for market development and the rule of law. Under the PFF, therefore, the legal reform strategy which the Mission has developed over the last six months assumes new significance. Additional funding in the PFF would permit USAID to **refocus its legal reform support to emphasize coordinated development of the legal framework for promoting trade and investment, a stronger and more independent judiciary to assure enforcement, and training for both lawyers and judges.** The portfolio of activities which will accomplish this strategy will be managed by USAID/Russia in a way which more closely integrates all elements. The complete portfolio of proposed activities is presented under SO 2.2 below.

Under the PFF, regulation of natural monopolies also assumes increasing importance. \$1.5 million in support for this area is projected for FY 98 and an additional \$1 million in FY 99.

RESOURCES TO DATE

FY 92:	\$ --
FY 93:	\$ 18 million
FY 94:	\$ 13 million
FY 95:	\$ 16 million
FY 96:	\$ 5 million

As of 9/30/96:

IR Obligations: \$52 million

IR pipeline: \$10.8 million

Activities with pipelines > 12 months:

- Russia Privatization Center, policy on post-privatization
- IRIS (Univ. Research Corp.)

PROPOSED LEVELS

December review levels:

FY 97:	\$4 million
FY 98:	\$2 million
FY 99:	--

PFF Scenario:

FY 97: \$4 million
Natural monopoly regulation only:
FY 98: \$1.5 million
FY 99: \$1 million

PFF ACTIVITIES

See Strategic Objective 2.2 for legal reform (commercial law, judicial development, and professional training)

Natural monopoly regulation
\$1.5 million in FY 98
\$1 million in FY 99

SO 1.3 Accelerated Development and 1.3.2 Land and Real Estate Market Mechanisms Operating, BASELINE

In 1994, no privatized enterprises had the right to purchase or register private titles to land and real estate anywhere in Russia.

In 1995, there were 17 certified appraisers and 1,494 paying members in the Russian Society of Appraisers (RSA). The Guild of Realtors had 720 companies as paid members.

One Russian city passed new regulations permitting registration and sale of real estate in 1995.

One Russian city established a functional real estate information system in 1995.

1996

More than 1,000 pieces of commercial land and/or real estate were sold and/or registered in 1996 in St. Petersburg.

37 professional appraisers were licensed and doing business; membership of the Russian Society of Appraisers increased by 64% in one year, to 2,445. Paid membership in the Guild of Realtors increased to 920 firms.

Tver and Nizhny Novgorod passed laws/regulations permitting registration and sale of real estate.

Four cities developed and installed unified, computerized real estate information systems.

RESULTS REPORT

The **Law on Condominiums was adopted** by the Duma in June, 1996, entitling condominium associations to the land on which their buildings stand. By the end of 1996, there were over 600 condominium associations in 40 cities and oblasts, a threefold increase in numbers since the beginning of the year. The new law clarifies ownership rights and establishes a firm legal basis for creation of associations across Russia.

More than 22 million households now occupy homes that they own; they have a real stake in Russia's nascent market economy. Data from surveys in Moscow show that **the housing market is working** to address peoples' needs for living space. Some 150,000 housing transactions took place in Moscow alone in 1996.

USAID's Enterprise Land Sales activity was closed out in 1996, but the results of the work are now translating into **tangible business development**. Businesses which purchased the land on which their companies were located have reportedly converted that land into a tradeable asset. More than 100 enterprises sold or leased excess land to raise investment capital.

The **real estate appraisal business is growing** to support these emerging housing and land markets. Training and other support for the professional development of these groups continues to be an important component of USAID's program.

USAID-funded housing and real estate programs also continued to **involve public officials dealing with real estate issues**. By the end of 1996, consultants had worked in 26 pilot cities and oblasts on housing privatization, land market development, real estate information and registration systems installation, and/or land use planning and zoning issues. Direct advisory support was provided to 19 cities implementing World Bank loans in land and housing development. The rollout potential from the pilot cities is strong, judging from the number of requests from new cities for consulting. A growing involvement of the Union of Russian Cities (with 90 member cities) enables that organization to complement the USAID-funded consultants in guiding other cities on real estate market development.

and Growth of Private Enterprises Accessible, and Being Used by Businesses

RESOURCE REQUEST

While housing sector reform and real estate market development are among the most significant successes of the USAID program to date, much remains to be done to spread the information and technologies to other cities and businesses. The World Bank loans in this sector are now substantial (reducing the need for USAID funding) and Russian interest and capability to continue the reforms continues to grow. In the April, 1996, R4, therefore, USAID/Russia requested only \$1 million for each of FY 98 and FY 99 to provide a minimal degree of support. This assumed an FY 97 funding level of \$2.5 million.

In the December, 1996, review of the Russia program, however, it was decided that some reprogramming of money already in the pipeline could fund the initiatives proposed for FY 97 and, if needed and available, additional monies might be added in FY 98 for completion of the program as planned.

PFF OPPORTUNITIES

Within the context of any Regional Investment Initiatives (RII) which are launched under the PFF, real estate issues are certain to be a key element. To the extent that approaches, lessons learned, and technologies developed under the land/real estate market development to date can be applied in the geographic areas of focus, consideration will be given to using targetted funds for the transfer of information and technology. The concept of incubator cities for land/real estate market development is one which fits within the RII concept. Given the success that USAID-funded consultants have had in facilitating Russian cities' qualification for and use of World Bank loan funding in land and real estate development, this is one area where continued funding will clearly have an impact.

Under the PFF, USAID will also consider supporting partnerships between US and Russian real estate and urban development associations within the context of SPAN (SO 2.1)

RESOURCES TO DATE

FY 92: \$ --
FY 93: \$1.3 million
FY 94: \$ 33 million
FY 95: \$25 million
FY 96: \$ --

As of 9/30/96:

Total obligations for IR: \$59 million

IR Pipeline: \$4.1 million

Activities with pipelines > 12 months:

None

PROPOSED LEVELS

December review levels:

FY 97 \$0 million
FY 98 TBD
FY 99 TBD

PFF Scenario:

FY 97 \$0 million
FY 98 \$2 million
FY 99 \$2 million

PFF ACTIVITIES

'\$ millions	FY 98	FY 99
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Support WB investment in the real estate/housing sector	2	2
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SO 1.3 Accelerated Development

IR 1.3.3 Successful Models of Private Ownership

IR 1.3.4 Sustainable Network of Business Support Institutions (BSIs)

BASELINE

Models for Management (IR 1.3.3)

- C Up to 1995, business consultants had to translate international materials and/or do on-the-spot creation of training materials. There were few, if any, Russian-experience-based training materials.
- C Farm reorganization was, in 1995, a donor-funded pilot experience involving 14 former state farms or local initiatives with doubtful legality.
- C 23 housing condo managers sought information on USAID sponsored models from Institute for Urban Economics regional centers in 1995.

Business Support Network (IR 1.3.4)

- C There were 60 financially viable BSIs by 1995.
- C No BSI clients paid full-fare for services in 1995.
- C BSI-sponsored trade fairs resulted in \$1 million in signed contracts in 1994 and \$4 million in 1995.

1996

Models for Management (IR 1.3.3)

- C Business toolkits based on Russian reality were distributed to 1200+ firms.
- C 33 farms not receiving donor assistance completed reorganization using the USAID farm reorganization model.
- C Repeat visits to the IUE regional centers increased to 114.

Business Support Network (IR 1.3.4)

- C About a quarter of the 200+ BSIs reported revenues covering costs.
- C Nearly 3,000 clients paid for services received from BSIs.
- C BSI trade fair deals topped \$6 million.

RESULTS REPORT

Managers of more than 1200 privatized industrial firms benefitted from the experience of similar companies that attempted to use modern methods of organization and management in restructuring their enterprises. The **Business Toolkits** (made available for free to Russian and international business training and consulting institutions -- and now starting to appear in commercial formats!) are grounded in USAID-funded firm-level consulting efforts of 1995/96. The most popular toolkit deals with marketing. Corporate finance and accounting standards modules rank second and third.

An analysis of PIES, FMA, and IESC experience against the backdrop of a larger survey of restructuring behavior of privatized firms shows that firms receiving USAID assistance in

1995/96 actually accomplished more than the norm. In the national sample of privatized firms, only 25% were found to have taken any directed steps to increase the competitiveness of their enterprises; indeed, many lost substantial ground in 1996 through inaction, building up wage and tax arrears. **All of the assisted firms made some changes**, and three firms made dramatic gains - developing competitive products, increasing sales --including exports, moving toward profitability, and acquiring outside financing.

The rollout of **private housing maintenance** programs continued in 1996 as more than 15 cities put 10-15% of housing into this more cost-efficient and effective mode of management. In Moscow alone, 300,000 units are under private management.

By the end of 1996, we estimate that 120,000 businesses have received some assistance through the USAID-supported BSI network. In 1996 alone, the BSIs associated themselves with 5,000 start-ups and the creation of 40,000 new jobs. Small/new business registrations in the regions have been simplified as BSIs have worked as partners with local governments on business issues. **BSIs gained credibility as well as commercial success as service providers and advocates for small and medium** enterprise development. Impressed by the impact which the USAID-supported Opportunity International small and microenterprise programs are having in Nizhny Novgorod, the oblast government asked OI for help in starting an oblast-funded business incubator.

and Growth of Private Enterprises and Modern Management Widely Replicated Rendering Services to Entrepreneurs and Businesses

RESOURCE REQUEST

In the April, 1996, R4, \$4.75 million was approved for business management and support institutions in FY 98. \$1.5 million was approved for FY 99. In December, 1996, it was agreed at the Moscow program review that a level of \$9.5 million was more appropriate for FY 98, and a level of \$3.5 million proposed for FY 99.

With these funds, the program will focus on just three activities: providing client-focussed business volunteer support to firms and BSIs, maintaining the networking capacity of the Business Collaboration Center opened in 1996, and the University of Alaska's small business training program in the Russia Far East.

PFF OPPORTUNITIES

As with other elements of SO 1.3, the Regional Investment Initiative which is associated with the PFF provides an opportunity to **refocus business support expertise in specific geographic areas, emphasizing the links with American exporters and potential joint venture partners as well as the capacity of local BSIs to address the start-up needs of micro- and small businesses.** Under the PFF scenario, therefore, USAID/Russia proposes a substantially stepped-up program for training managers of projects receiving or seeking investment support from U.S. entities. This would complement a microfinance initiative focussed on small Russian entrepreneurs (discussed in SO 1.4) and rely on continued progress toward reducing taxes and gaps in the legal framework as impediments to investment.

RESOURCES TO DATE

FY 92: \$8 million
FY 93: \$43 million
FY 94: \$134 million
FY 95: \$35 million
FY 96: \$31 million

As of 9/30/96:

Total obligations for Irs: \$251 million

IR pipeline: \$60 million

Activities with pipelines >12 months:

IBTCI

Opportunity International

SUNY Microincubators, Volkhov

Urban Institute, Housing Reform

PROPOSED LEVELS

FREEDOM SUPPORT ACT

December Review Levels:

FY 97 \$12.29 million
FY 98 \$ 9.95 million
FY 99 \$ 3.5 million

PFF Scenario:

FY 97 \$12.29 million
FY 98 \$14.5 million
FY 99 \$13.0 million

PFF ACTIVITIES

‘\$ millions	FY 98	FY 99
Client-Focussed Bus Volunteers	10	10
Business Collaboration Center	2	2
RFE Enterprise Development	1.5	1
Program administration	1	--

SO 1.4 A Robust and Market-Supportive

BASELINE

In 1993, total assets of the banking system were 40.7% of real GDP.

85 of 3000 outstanding banking licenses were revoked by the Central Bank of Russia in 1994.

The first Russian enterprise raised funds through an initial public offering (IPO) in 1995.

20 banks made 900 mortgage-based loans in 1995.

6% of the federal government deficit was covered by T-bills in 1994.

There were no licensed Mutual Funds in 1995.

1996

Total assets of the banking System rose to 53% of real GDP, signalling increased confidence.

622 of 2604 banking licenses were revoked by the Central Bank of Russia.

The Ministry of Finance approved 7,242 prospectuses for corporations seeking to issue securities (both public and private placements).

5 new banks made 2000 mortgage-based loans and started home improvement lending. The Agency for Mortgage Lending was approved by the Government as a public/private entity to support a secondary market in mortgages.

Percentage of government deficit covered by T-bills increased to 35%

14 Mutual Investment Funds were licensed

RESULTS REPORT

The 1996 record of **strong growth in the development of capital markets and the banking sector** must be attributed to strong Russian leadership. But both classroom and on-the-job training in on-site inspection of banks gave the Central Bank (CBR) a significant boost in regulatory capacity; USAID's contributions in this regard were singled out for praise by the CBR at the September meeting on Banking Soundness convened by the IMF. The positive impact of USAID support for the development of the Russian Federation Commission on Securities Markets (FCSM) has been often articulated this year by private brokers and dealers and AmCham representatives. This confidence is confirmed by evidence of increasing Russian and international participation in the securities market.

Increasingly **solid private market organizations** are also part of the picture. The Russian Trading System (RTS), an over-the-counter electronic trading system modelled after the NASDAQ and started with USAID support, increased the average monthly volume of trading from \$54 million in 1995 to \$295 million in 1996. Owned by the market participants themselves - NAUFOR (a 410-member national organization) and PAUFOR (Moscow only), RTS is poised for further growth in the regions.

In mid-year, new management took over the ailing Depository Clearance Corporation (DCC) established with USAID support in 1995. By early 1997, the DCC had reduced payment time from 14 days to 3 days in Moscow and no more than 7 elsewhere. Another element of the capital market infrastructure established in 1994/95 with USAID support, the National Registry Company (NRC) weathered a test of its capacity with flying colors. It became a registrar for Norilsk Nickel in Sept. 1996. By January, 1997, 17 Russian large issuers (more than 1,000 shareholders) transferred their company's stock registration to the NRC.

While the **introduction of mutual fund mechanisms** into the securities market took place with great success (and some USAID support) in 1996, expected increased use of the IPO mechanism which would help medium size enterprises to raise financing did not happen. Accounting standards, the need for "excessive" transparency in prospectus preparation and negotiations, and issues of corporate governance all played a role. For small businesses, leasing and incubators continued to prove themselves as useful complements, and, in some cases, as viable alternatives, to start-up loans.

Financial Sector

RESOURCE REQUEST

USAID/Russia's requests for FY 98 and FY 99 funding for this SO were, at the time of the April, 1996 R4 review \$6.4 million and \$1 million respectively. These requests assumed an FY 96 level of \$26.65 million which, ultimately, turned out to be only \$20 million, and an FY 97 level of \$11.9 million -- currently looking to be no more than \$5.4 million. Activities have been very tightly budgeted and several Russia-requested programs have gone unfunded.

The current R4, therefore, proposes a level of \$1.3 million for FY 98 and \$ 1million for FY 99 (enough to sustain a low level of expert services from the Financial Services Volunteer Corps but requiring close-out of all other programs) .

PFF OPPORTUNITIES

In the event that the PFF-proposed levels are appropriated, it makes sense to sustain a slightly higher level of continued support for banking and capital markets development. Stability and reliability in these areas are fundamental to all investors and especially to **expanding US-Russian trade and investment**. A "continuing" \$12.8 million program is proposed for FY 98 and an \$7.25 million program for FY 99. In addition, an annual level of \$500,000 in funding for joint activities of partnerships between the Russian National Association of Professional Market Participants (NAUFOR) and the American National Association of Securities Dealers and between the Russian Depository Clearing Company and the American Depository Trust Company is proposed as a PFF initiative. Finally, a \$12 million grassroots program (for two years) focussed on expanding activity in the **start-up micro- and small enterprises sectors** is proposed to be implemented in conjunction with the Regional Investment Initiative.

RESOURCES TO DATE

FY 92: --
FY 93: \$13.5 million
FY 94: \$53.5 million
FY 95: \$26.2 million
FY 96: \$19.6 million

As of 9/30/96:

Total obligations: \$112.9 million

SO Pipeline: \$27 million

Activities with pipeline >12 months: None

PROPOSED LEVELS

December Review Levels:

FY 97:	\$2.9 million
FY 98:	\$1.3 million
FY 99:	\$1 million

PFF Scenario:

FY 97:	\$2.9 million
FY 98:	\$19.3 million
FY 99:	\$13.75 million

PFF ACTIVITIES

\$ millions	FY 98 FY 99	
Central bank supervision/trng	1	1
Banking/finance advisory ser 2	1	
Commercial bank training	1	0.75
Capital markets support	8	4.5
Microenterprise finance	6	6
Capital markets partnerships	0.5	0.5
Program administration	0.8	--

SO 1.5 A More Economically and Environmentally

BASELINE

National electric power system privatized in 1992 into 72 distribution companies and RAO EES Rossii (UES) as a holding company. UES controlled all large generating stations, transmission and dispatch systems; held 51% interest in distribution companies with 70 billion rubles in capital assets and over 1 million employees. Inter-Ministerial Task force established to oversee restructuring of power sector in September, 1995.

Coal sector analysis resulted in 1995 application for a World Bank sector adjustment loan

Efficiency of natural gas usage in heating sector low; no gas meters at user facilities installed. No NGOs or private entities promoting energy efficiency.

Technology for environmental management and energy efficiency used does not reflect international technology standards.

1996

Inter-Ministerial Task Force reviewed sector restructuring proposals, submits plan to Yasin Commission in December, 1996.

World Bank coal sector adjustment loan approved; \$500 million disbursed .

900 gas meters installed as preparation for planned \$106 million World Bank loan to develop customer metering and billing techniques. CENef, an NGO promoting energy efficiency, became sustainable and helped to establish the Russian Energy Managers' Association.

\$33 million in EECIP-funded US equipment introduced new technology. Energy efficient lighting in Moscow resulted in order from City Government (\$500,000) . Murmansk State Fishing Fleet negotiating purchase of 11 district heating boiler controls demonstrated by 4 EECIP units.

RESULTS REPORT

Electric power sector restructuring. Progress toward sector-wide reforms remained slow in 1996. The Inter-Ministerial Task Force reviewed proposals for the restructuring of the power sector, including the development of a competitive wholesale electric power market, and issued recommendations to a Government Commission. The Commission's report met stiff opposition from UES and, at year-end, UES continued to exercise its monopoly control over the power sector. The unsettled restructuring issues continue to discourage much-needed private investment.

Lenenergo, in the St. Petersburg region, completed the steps necessary to convert its accounts into **International Accounting Standards (IAS)**. USAID-funded consultants installed the necessary spreadsheets and provided training to develop in-house capacity. In addition to serving as a demonstration for other energoes, Lenenergo intends to use this new ability to generate financial reports for business purposes with western investors and financial houses.

One Regional Energy Commission (REC) began developing a **regulatory model** for introduction to the regional government patterned after the State of Illinois Commerce Commission Rules and Regulations. This initiative

resulted from contacts made through the USAID-funded utility partnership program. The local distribution company and the REC plan to have a mock “cost of service” tariff hearing as part of the development of the Russian legislation.

USAID’s support for **coal sector restructuring** led to successful negotiation of the World Bank restructuring loan. Two tranches, for \$500 million, were disbursed. Local gas distribution companies in Volgograd and Vladimir undertook **demonstration projects in gas metering**. It is expected that accurate measurement/billing will lead to more efficient use of this important natural resource. EECIP funds were used to procure needed metering equipment.

The Russian-American Oil and Gas Technology Center in Tyumen was effectively closed with the withdrawal of USAID/DOE support. Expected to stimulate agreement on technology standards (where Russia and the US express industry standards in different and not-easily-convertible units), the Center failed to attract members and users.

Sound Energy System

RESOURCE REQUEST

FY 98 funding for this Strategic Objective was approved at \$2.1 million in the 1996 R4, with FY 97 funding planned at the \$5.2 million level. Actual funding available in FY 97 is \$200,000 for program administration only. Mission strategy is to assure that ongoing activities are concluded effectively with the use of \$3.2 million in prior year funds. With the exception of a small grant to the State of Alaska with regard to developing energy investments in Sakhalin Island, all of the FY 97 commitments are focussed on completing the support for electric power sector restructuring as productively as possible (Hagler Bailly technical services, investment promotion; USEA utility partnerships in the regulatory area).

The FY 98 Request level is, therefore, \$200,000 which will be used, as in FY 97, to assure USAID management.

PFF OPPORTUNITIES

There are many opportunities for the U.S. within the Partnership for Freedom to continue to support energy sector growth and increased efficiency in the use of Russia's natural resources: promote increased investment in the energy sector by removing policy and technical impediments to such investment; leveraging the availability of World Bank energy loan funds by facilitating Russian preparations for such loans; training managers of projects receiving (or seeking to attract) U.S. investments -- such as the recent work with the consortium developing the Krasnodar generation facility; and working with the private regional energy companies on concrete investment strategies.

To the extent possible and desirable, these initiatives will be pursued within the general context of the Regional Investment Initiatives. Continued support for GCC energy initiatives is also proposed.

RESOURCES TO DATE

FY 92: \$19.2 million
FY 93: \$19.4 million
FY 94: \$100.2 million (including EECIP)
FY 95: \$15.8 million
FY 96: \$6.8 million

As of 9/30/96:

Total obligations: \$161.5 million

SO Pipeline: \$56.7 million

Activities with pipelines >12 months:

- EBRD Nuclear safety
- Hagler-Bailly
- Burns and Roe (both EECIP mgt and energy)
- EECIP

FREEDOM SUPPORT ACT

PROPOSED LEVELS

December Review Levels

FY 97:	\$300,000
FY 98:	\$200,000
FY 99:	\$0

PFF Scenario

FY 97:	\$300,000
FY 98:	\$200,000
FY 99:	within RII

PFF ACTIVITIES

At this time, no detailed planning for regional investment opportunities relating to energy investment has been done. Only program administration costs are projected. GCC amounts are included under Joint Support Activities rather than within USAID's resource levels.

SO 2.1 Increased, Better Informed Citizens' Participation in Political IR 2.1.1 Free and Fair Election Administered

BASELINE

There were no free and fair elections during more than 70 years of Communist rule.

The Central Election Commission (CEC) was formed in 1989, but had no permanent legal status. The 89 sub-national "Subject Election Commissions" (SECs) had no *independent role* in the vote count/administration process.

Pro-reform political party infrastructures were weak or non-existent.

1996

The 1996 Presidential election was judged free and fair by all international observers. 48 out of 55 regional elections (which occurred between August and December) were similarly assessed to be free and fair.

The CEC proved institutionally capable of administering free and fair elections. The role of SEC's was formalized, and they were given the status of permanent commissions. 100% of SECs were connected to the new State Automated System (SAS) for tabulating/reporting the results of the Presidential election.

One of two reform parties developed its own internal political education program.

RESULTS REVIEW

Free and fair Presidential elections took place in June-July 1996, proving to most peoples' satisfaction that Russia is committed to democracy. One observer noted, "all political actors, including those denying democracy as a regime, proved capable [of] observing the laws and rules of competitive elections."

Both the run-up and the elections themselves were **well-managed by the Central Election Commission**. IFES support contributed to legal and regulatory reform that strengthened the CEC and made the elections more transparent. Division among "pro-reform" political parties in the Duma elections of 1995 resulted in gains by the communists and their allies. "Pro-reform" forces remained divided going into the first round of the Presidential elections, but the second round saw a certain amount of coalition building among like-minded parties. Techniques used in the Presidential campaign were subsequently used by "pro-reform" parties in the regions to elect candidates to gubernatorial posts and to the Federation Council. Several parties used the independent media to great effect; others relied on volunteers. Some techniques used were those learned in IRI and NDI training.

The role of independent media was evident in the electoral process, although there were accusations that the media was "too friendly" to the incumbent in hopes of garnering future favor. Throughout the year, the independent media kept the public informed on the sensitive issues associated with the war in

Chechnya and the President's health. Progress in this critical sector is profiled separately on the following pages.

And Economic Decision-Making Nationally and Locally

RESOURCE REQUEST

The approved FY 97 \$3.5 million level of support for activities in democracy-building through the electoral process was reduced to only \$1.75 million with the overall budget cut. Additional resources (\$2 million) were mobilized from prior-year funding to cover program requirements. The April 1996 R4 approved levels of \$2.85 million and \$1.85 million for FY 98 and FY 99, respectively, have been slightly revised in the current R4. \$2 million is proposed for each FY. These will permit both IRI and NDI to maintain ongoing programs, with an emphasis on activities in the regions.

PFF OPPORTUNITIES

The PFF approach fits well with the Partnership approach already taken by IRI. As reported in the December, 1996, Mission study of partnerships, IRI and its multiple Russian partners are already working well toward institutionalizing a non-partisan resource base for democratic political movements and parties. In addition, the pilot approach implemented by NDI and RTI in Nizhny Novgorod in 1995 has given rise to a new and broader USAID/Russia initiative to increase citizen participation in local problem-solving. The Community Development Initiative (CDI) fits well with the overall emphases on regional growth and community action articulated in the PFF. It builds upon a number of pilot activities which various development partners have already tried in more limited contexts.

RESOURCES TO DATE

All elements of SO 2.1 (of which: Electoral, 2.1.1)

FY 92:	\$3.7 million (\$2.9 million)
FY 93:	\$5.7 million (\$3 million)
FY 94:	\$28.2 million (\$11.3 million)
FY 95:	\$15.0 million (\$3.7 million)
FY 96:	\$ 10.2 million (\$2.3 million)

As of 9/30/96:

So Total:	\$62.7 million (\$23.2 million)
SO pipeline:	\$23.7 million (\$3.0 million)

Activities with >12 month pipeline:

- Civic Initiatives Program (Save the Children)
- Media Development Program (Internews/RAPIC)

PROJECTED LEVELS

December Review Levels

S.O. 2.1 Total

FY 97:	\$7.73 million
FY 98:	\$6 million
FY 99	\$500,000

For SO 2.1.1 only (Electoral Process Support)

FY 97:	\$1.75 million
FY 98:	\$2 million
FY 99:	\$2.5 million

PFF Scenario:

SO 2.1 Total

FY 97:	\$ 7.73 million
FY 98:	\$24.65 million
FY 99:	\$27 million

SO 2.1.1 Only (Electoral Process Support)

FY 99	No change
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PFF ACTIVITIES

See SO 2.1.2 and 2.1.3 for details.

IR 2.1.2 Increased Public Access to Information

BASELINE

Only embryonic public and independent news sources existed in 1992. By 1995, there were about 450 licensed privately-owned and independent television stations and about 8,000 privatized journals and newspapers.

About ten percent of the population outside of Moscow was, by 1995, watching an independent regional TV broadcast during prime time.

3 percent of total television advertising in the RF was purchased from regional stations in 1995.

Technical standards employed by the media in 1992 were below par with international standards. By 1995, 20 regional independent TV stations were using beta- and digital technology.

1996

There were 500 licensed privately-owned and independent television stations, 9,860 registered privatized newspapers and journals and a broadening array of advertising brokers and commercial media companies.

12 percent of the population outside of Moscow was watching an independent local TV broadcast during prime time, and over 33 percent of the population now enjoys access to independent regional TV.

Total television advertising purchased from regional stations jumped to ten percent. 20-30 regional independent stations averaged over \$100,000 monthly in gross advertising revenues.

40 TV stations are now using new technology (beta and digital).

FREEDOM SUPPORT ACT

RESULTS REVIEW

Open public access to information underpins any market-oriented democracy. Since 1993, local television stations -- with strong support from USAID-funded Internews -- formed and expanded the Independent Broadcast System (IBS). In 1996, IBS beamed a seven-hour daily satellite feed (fully paid by advertising) to 59 stations and 45 million viewers. **Independent regional TV stations aired unusually objective reporting of the 1996 presidential and gubernatorial elections** compared to other, more government-influenced channels.

Since 1994, Internews has supported over 90 emerging independent commercial television stations through equipment and training of journalists, editors, advertising managers, and station directors. Attention to economic sustainability has paid off: the number of Internews-assisted stations averaging over \$100,000 monthly in gross advertising revenues increased from 12 in 1995 to over 20 in 1996. Similarly, eight newspapers receiving assistance from RAPIC/MDP increased revenues in 1996.

The economic independence of media outlets contributes to their political independence. Promoting further institutionalization of legal protections for the free media, USAID-assisted MDP partnerships such as the National Association of Telecasters and the Media Law and Policy Institute helped shape four federal and local media regulatory acts in 1996.

Enhanced e-mail connections are also driving the **media sector's dynamic progress**. Notably expanding links among media organizations for sharing technical and substantive information, Internews and MDP orchestrated a veritable explosion of Internet connections. Over 100 TV stations and seven newspapers are now accessible on the Internet, six media web sites have been started, and one list server group was initiated. The successful media partnership between Bloomberg Newswire and the Russian Skate Press resulted in 400 Russian companies subscribing to news services.

Which is Needed for Informed Political and Economic Choices

RESOURCE REQUEST

Support for independent media growth in the April 1997 R4 was approved at \$1 million for FY 98 and nothing for FY 99. Given the critical role of this sector, however, and its vulnerability to both political and economic factors, USAID/Russia is now proposing that funding be sustained with \$2 million in FY 98.

The majority of the funds will be granted to Internews Russia to continue strengthening independent broadcast stations, keeping them up with technical developments. Funds will also be used to continue support to successful and potentially sustainable media partnerships under the Media Development Program and to facilitate media firms attracting external investors.

PFF OPPORTUNITIES

With the opportunity for additional funding under the PFF, USAID/Russia proposes that Internews/Russia be enabled to sustain its support of and involvement in the continued growth of the independent media in Russia through a \$12 million endowment. Income from this endowment will permit Internews to raise additional funds for further sector development and to maintain a long-term core program targeting: production development, program distribution, information center activities, and a business facilitation

center all with the goal of securing high quality journalism in the context of a free media. An endowment for the Russian American Press and Information Center (RAPIC) is also budgeted at \$8 million in FY 99, but the content of this endowment is less certain. Finally, \$1.5 million is proposed for FY98 to help television stations and newspapers improve accounting and management practises and draft business plans in order to **reduce impediments to investment**.

FY 92: \$0.8 million

FY 93: \$2.5 million

RESOURCES TO DATE

FY 94: \$7.0 million

FY 95: \$5.0 million

FY 96: \$4.8 million

As of 9/30/96:

Total IR Obligations: \$20 million

IR Pipeline: \$11.7 million

Activities with pipelines >12 months

-- Media Development Program (Internews and RAPIC)

-- Media Viability Fund

PROPOSED LEVELS

December Review Levels

FY 97: \$2,230,000

FY 98: \$2,000,000

FY 99: --

PFF Scenario

FY 97: \$ 2,230,000

FY 98: \$13,500,000

FY 99: \$8,000,000

PFF ACTIVITIES

\$ Millions	FY98	FY99
Internews Endowment	12	0
RAPIC Endowment	0	8
Media Investment	1.5	0

IR 2.1.3 NGO Sector Provides Alternative to Ballot Box for Participating

BASELINE

In 1994, citizen advisory groups were not officially recognized by local governments. In 1995, NGOs had not introduced local legislation or provided input into the legislative processes on issues affecting their operations or interests on the local level.

In 1994, few, if any, grassroot NGOs in the country were financially self-sufficient. Many NGOs relied primarily on foreign funding to survive.

Out of 190 NGOs associated with the Civic Initiatives Program, 162 relied on foreign funds in 1995.

In 1995, there were 3 million independent trade union members.

In 1994, there were no regional NGO Resource Centers. In 1995, the first publication of a legal guide to NGOs was distributed to 1,000 NGOs.

1996

6 citizens' advisory groups were recognized by local governments. NGOs provided input into the legislative process in 4 cities.

112 USAID-assisted NGOs had used new financial management strategies to develop financial sustainability plans.

Out of the same 190 NGOs, only 143 relied on foreign funding, a "graduation" rate of 12 percent.

In 1996, there were 3.612 million independent trade union members, an increase of 20% in one year.

There were 1,546 requests for services from the 15 NGO Centers networked into three regional NGO Centers. 3,000 copies of the NGO legal guide were distributed to NGOs and local governments. An additional 1,000 copies of an updated NGO legal guide have been printed.

RESULTS REPORT

NGO numbers did not continue to grow at such a rapid rate as they had in the earlier half of the 1990's. Rather, the NGO community began to show a new maturity based on its experiences to date: finding its voice in local fora; developing new roles for specialized NGOs in meeting local social service needs; and reaching out for new members and new means of funding. Partnerships with American NGOs contributed to this progress.

A new voice. NGOs in the three regions covered by USAID's Civic Initiatives Program (Siberia, Southern Russia and Central Russia) noticeably increased their involvement in local political and economic decision-making. NGO involvement was associated with the movement to end the war in Chechnya. Entrepreneurs in many cities (especially those served by USAID-funded business support institutions) began to influence local affairs through the development of vocal business associations. Membership in independent trade unions increased. A department in charge of relations between the Mayor's office and NGOs was created in Novosibirsk, recognizing NGOs

influence in the city. A consortium of 48 Russian women's NGOs participated in parliamentary hearings on the draft law on reproductive rights. They have also participated in development of several family and youth laws.

New roles. The "Sluzheniye" NGO Association and "Opportunity for Everybody" in Nizhny Novgorod drafted a law for consideration by the local government on Municipal Social Contracting. The "social contract" idea is taking off elsewhere as well.

Better outreach. Improved outreach skills are being effectively employed by some of the NGOs associated with NGO Resource Centers in three regions. 70 NGOs and over 400 people attended an NGO Fair in Novosibirsk held in June 1996. The Fair was replicated in 2 other cities and is likely to become an annual affair in Novosibirsk.

In Economic and Political Decision-Making

RESOURCE REQUEST

FY 97 funding for this IR was approved in the April 1996 R4 at \$2.6 million; FY 98 were lower, at \$2.5 million and FY 99 was just \$2 million.

Actual FY 97 was agreed , in the December review, to be \$3.75 million, with the increase largely allocated for a new Community Development Initiative (CDI). This Initiative is expected to bring together civic groups, NGOs, the private sector, and local governments for the joint solution of community problems. It will build upon the experience of the local government program currently being implemented under SO 2.3, and on the business development (SO 1.3.4) and NGO development activities which have been noted under this IR. FY 98 proposed levels are kept at \$2 million, all of which will support the CDI.

PFF OPPORTUNITIES

The Community Development Initiative (CDI) is an effort which will strengthen democracy and civil society and is clearly part of the PFF concept. Under the PFF budget scenario, therefore, the CDI is included at a higher level of funding. A million dollars in FY99 would be used to ensure stability of Russian- run and -managed NGO Resource Centers. Funds for NGO Sector Development would be used for long term institutionalization of Russian NGO sector providers and organizations. Support for free trade union development, for edxample, would focus on linking resources to those workers hardest hit by the economic transition. Finally, PFF would be used to fund the "Sustaining Partnerships into the Next Century" (SPAN) program. This partnership strategy will support, deepen and expand existing partnership relationships and programs between Russian and US organizations in the crucial sectors of business development, trade and investment, civil society, rule of law, energy, and environment and health.

RESOURCES TO DATE

FY 93: \$ --

FY 94: \$ 9.5 million (see also project 0004)

FY 95: \$ 5.9 million

FY 96: \$ 0.3 million:

As of 9/30/96:

Total IR Obligations: \$ 15.7 million

IR pipeline: \$6.3 million

Activities with pipelines > 12 months:

-- Civic Initiatives Progam

-- FTUI

PROPOSED LEVELS

December Review Levels:

FY 97: \$3,750,000

FY 98: \$2,000,000

FY 99: \$ 500,000

PFF Scenario:

FY 97: \$3,750,000

FY 98: \$9.150,000

FY 99: \$17,000,000

PFF ACTIVITIES

\$ Millions	FY98	FY99
CDI	3	2
NGO Resource Ctrs	0	1
NGO Sector Develop	0	10
SPAN	5	3
Community Hsng Part	0.8	1
Program admin	0.3	--

SO 2.2 Legal Systems that Better Support**BASELINE**

In 1994, very few foreign-owned businesses trusted the Russian court system to resolve disputes. Arbitration in Stockholm was a standard contract clause.

54 post-Soviet era laws incorporating market principles were adopted by the Federal Duma in 1995.

Automation of court processes (including recording of judgements) and efficient ability to process cases at all levels was well below international standards in 1995.

In 1993, Russian law schools were using outdated curriculum and teaching methods keyed to the old Soviet era laws, not geared to the concept of equal treatment under rule of law.

1996

10% of foreign-owned businesses used the Russian court system to solve disputes instead of going abroad or resorting to illegal means.

65 laws with free market principles were drafted with USAID assistance and presented to the Duma for adoption.

The Supreme Commercial Court is developing an automated system for case management, and systems for distributing recent commercial legislation are being put into place.

5 major law schools have developed the capacity to provide advocacy training to the student body and materials for new subjects were distributed to the members of the Russian Association of Law Schools and incorporated into the curriculum of Ural State University.

FREEDOM SUPPORT ACT

RESULTS REVIEW

In 1996, Russian courts began to show the first visible signs of offering an **alternative to arbitrary judgements and violence as a means of dispute resolution**. The Courts of General Jurisdiction have increasingly been seen as an avenue to resolve wage arrear problems, being successfully used by clients supported by the Free Trade Institute. In another instance, the Commercial Courts (strengthened with USAID-funding training and legal materials) returned the first-ever decision regarding a foreign company on an intellectual property rights case, awarding Microsoft \$15,000 in damages and leading to a fourfold increase in software licensing fees paid by Russian firms in just a few months. The first independent arbitration Court was established in St. Petersburg by the St. Petersburg International Business Association.

USAID support played a significant role in **legal drafting**, contributing to ten federal laws and countless decrees and regulations. These are discussed in more detail in SO 1.3/IR 1.3.1.

Another law passed in 1996, “On Judicial Systems,” creates an independent judiciary similar to that in the US and is, in part, the result of USAID support to the Council of Judges. This new law should further Russia’s **development of a credible and fair judiciary**.

Training and legal partnerships between American entities and Russian counterparts support **professional development** overall. A partnership was established between a Saratov legal NGO specializing in training and the American Bar Association. This now-ongoing relationship is to improve trial advocacy and commercial law skills, with courses jointly taught by US and Russian trainers. A partnership between the Moscow Research Center for Human Rights and the Amercia Development Foundation completed a train-the-trainers program on institutional development and human rights advocacy for nine regional affiliates of the Moscow Center.

Democratic Processes and Market Reform

RESOURCE REQUEST

USAID/Russia's approved level for FY 98 funding in April 1996 was \$2.85 million. Given overall budget pressures, the current proposal for FY 98 funding for the Rule of Law area includes only \$1 million for supporting certain aspects of the overall legal/judicial reform program. The current contracts for Rule of Law will all end in FY 97 so a new mechanism will be developed but it is likely to build on currently existing partnerships to ensure that they become viable, self-sustaining entities. FY 99 funding is proposed at the same level.

PFF OPPORTUNITIES

If the PFF is approved, the integrated legal reform strategy which the Mission has developed over the past six months assumes new significance. Continued development of the legal framework for commerce, a stronger and more independent judiciary, and better training for both lawyers and judges are essential elements of a strategic approach to **reducing impediments to trade and investment and assuring the rule of law** to Russians and foreign investors alike. USAID/Russia will refocus its legal reform portfolio to implement this strategy, emphasizing direct assistance to the commercial courts and development of new means for enforcing court decisions and alternative dispute resolution. It is assumed that the World Bank loan will provide adequate support for legal drafting. Partnerships between American judicial and legal organizations and Russian organizations will be nurtured. The PFF activity chart at the right includes the projected portfolio for the whole legal reform strategy, including elements which have, up until now, been presented as part of SO 1.3.1.

RESOURCES TO DATE

FY 92: \$439,692

FY 93: \$5.0 million

FY 94: \$4.0 million

FY 95: \$4.9 million

FY 96: \$3.9 million

As of 9/30/96:

Total obligations: \$18.2 million

SO Pipeline: \$4.7 million

Activities with > 12 months pipeline:

-- DOJ (\$1.5 million)

PROPOSED LEVELS

December Review Levels:

FY 97: \$2,800,000

FY 98: \$1,000,000

FY 99: \$1,000,000

PFF Scenario -- Refocussed Legal Reform Strategy (incl. elements of SO 1.3.1)

FY 97: \$2,800,000

FY 98: \$7,000,000

FY 99: \$5,900,000

FREEDOM SUPPORT ACT

PFF ACTIVITIES	\$ millions	FY 98	FY99
Legal impediments/investment		3	2
Legal training		1	0.9
Professional partnerships			
(Inc. judiciary dev, training)		2	3
NGO/ROL Grants (Eurasia)		1	0

SO 3.2 Improved Effectiveness of Selected

BASELINE

21.6% of the population was admitted to hospital in 1994.

In 1993, there were 120.8 hospital beds per 10,000 people.

The average abortion rate in 4 selected areas was 71.7 per 1,000 women of reproductive age in 1995.

Reorganized farms in 1995/96 divested social services to local government without any forward planning.

1996

21% of the population was admitted to hospital

There are now 116.5 hospital beds per 10,000 people.

The average abortion rate in the same four areas was 65.6 per 1,000 women of reproductive age, a drop of 8.5 percent.

Three new social service delivery models to reduce costs and improve quality of service are being tried in two oblasts.

RESULTS REPORT

USAID support has targeted a number of **key problems** affecting the efficiency and cost-effectiveness of health care in Russia: a budgeting system that encourages hospital treatment over less expensive outpatient care; a payment system that provides no incentives for physicians to increase efficiency and productivity; poorly equipped and trained primary care providers; low quality of care because of outdated medical practices and technologies; and excess numbers of physicians and hospital beds.

USAID-funded **pilot innovations in several areas are having an impact.** If, for example, modern outpatient treatment methods tested in Siberia were introduced everywhere, hospital admissions could be reduced and patients discharged earlier -- 40% of normal treatment costs for heart-attack patients might be saved. The establishment of independent family group practices could decrease hospital admissions by 15 - 35%. If the diabetes self-management program implemented by the Dubna-LaCrosse Hospital Partnership were used all over Russia, an estimated \$32 million per year would be saved. If the family planning approaches used in the pilot oblasts were used throughout Russia, 75,000 fewer women would have had abortions. Where primary care and new financing and payment models were tested in 84 sites in Siberia, there were 2 - 20% reductions in the number of hospital beds, the number of physicians providing primary care services increased (by 8% in one pilot site to 70% in another), and overall, there was a fourfold increase in the use of hospital capacity for outpatient care, further reducing unnecessary hospitalization.

The challenge is to **roll these innovations out**. Draft policy papers on National Health Care incorporate many of these lessons of experience. A full policy is expected to be submitted in mid-1997. Three national health reform laws were introduced into the Duma in 1996 and will be considered for passage in 1997: one on legalizing and regulating private practice and two on the manufacture, distribution, and use of pharmaceuticals and medical devices. All benefitted from USAID-supported input.

Social Benefits and Services

RESOURCE REQUEST

Approved 1996 R4 levels for this Strategic Objective were \$3 million in FY 98 and \$2.3 million in FY 99. As a results of the December program review, levels are now projected at \$3.2 and \$2.6 million respectively. The FY 97 level, approved in April 1996 at \$7.35 million, has been cut to \$3.425 million, with prior-year funds mobilized to fund national health reform activities launched in 1996. In FYs 98 and 99, USAID will support continuation of the medical partnership program and earmarked women's reproductive health activities. By 1999 USAID expects that: new national policies which provide a framework for more effective organization and financing of health care services will be adopted; laws and regulations will be in place that legalize and regulate private practice, establish structure of health care system, define minimum health care benefit package and patient rights. Cost effective rural social service delivery mechanisms will be active in 20 non-USAID funded raions.

PFF OPPORTUNITIES

The PFF emphasis on partnerships provides USAID an opportunity to expand the medical partnership program as well as to enhance linkages between U.S. and Russian organizations involved in health promotion. PFF funding will also be used to support Gore-Chernomyrdin (GCC) Health Committee activities which have successfully maintained an active dialogue between Russian and American organizations on critical health problems of concern to both.

RESOURCES TO DATE

FY 92: \$6.8 million
FY 93: \$5.7 million
FY 94: \$35.4 million
FY 95: \$17.8 million
FY 96: \$7.1 million

As of 9/30/96:

Total obligations: \$72.9 million

SO Pipeline: \$23 million

Activities with > 12 months pipeline:

- MSH (rational pharmaceuticals)
- AVSC
- JHPIEGO
- Futures/SOMARC

PROPOSED LEVELS

Planned Annual Obligations:

FY 97: \$3,425,000
FY 98: \$3,150,000
FY 99: \$2,600,000

FREEDOM SUPPORT ACT

PFF Scenario:

FY 97:	\$3,425,000
FY 98:	\$3,500,000
FY 99:	\$2,700,000

PFF ACTIVITIES

\$ Millions	FY 98	FY 99
Medical partnerships	2.6	2.2
Family planning	0.7	0.7
GCC Health Committee	2	2

SO 3.3 Increased Capacity to Deal with Environmental

BASELINE

As late as 1994, there were no laws or regulations at the local, regional or national level that included economic incentives for pollution reduction and resource conservation.

In 1993 there were no sources of environmental information and/or databases on the environmental situation in the country that could be accessed by the public.

In the early 1990's there was little environmental activism at the local level.

In the days of the Soviet command economy there was little reason to use pollution control methods which would also save energy.

1996

4 environmental policies and regulations which included economic incentives for compliance were developed locally with USAID assistance.

Throughout Russia 54 environmental activities influencing public opinion were undertaken with support from USAID funded activities.

2000 people accessed new environmental information networks and databases.

49 enterprises adopted low cost/no cost pollution reduction techniques.

RESULTS REPORT

Pilot work supported by USAID at 40 production sites around Russia has led to the identification and introduction of low-cost, effective environmental technologies and technical solutions to pervasive threats to the environment and public health.

Technology change. The discharge of nickel from the Nizhnii Tagil Medical Instruments Plant into the city's wastewater treatment plant was reduced by 60 percent after a system to trap and reclaim this toxic metal was installed. In Novokuznetsk, water treatment has been improved through the demonstration of a U.S. designed mixed-media filtration process to remove particles of varying size and ensure elimination of pathogens (99% removal compared to the original unacceptable level of 80%). Several changes in the air management system of Volgograd were developed (e.g. ambient monitoring, stack testing, air dispersion models, enforcement mechanisms). Together with low-cost pollution prevention and control measures implemented at 8 factories, these management measures have reduced stationary source emissions by approximately 8%, with the potential for 30-35% if all recommended measures are undertaken. The system will be introduced on a national scale through the State Committee for Environmental Protection.

Environmental policy. Through training and practical demonstrations, USAID-funded consultants have introduced the concept of risk assessment into Russia's environmental policy, explicitly linking market economics with environmental management. USAID-funded advisers in Yaroslavl also contributed to development of a program in which market values for natural resources are used as the basis for property taxation. Based on this approach, user fees can be established for water usage, timber and land.

Environmental awareness. NGOs are active in the development of economic, social, and nature protection strategies and have played a key role in introducing environmental curricula into schools. E-mail connections link over 200 NGOs who now regularly share information.

Pollution as a Threat to Public Health

RESOURCE REQUEST

Approved R4 levels in April, 1996, for activities under this SO were \$2.2 million each year for FY 98 and FY 99. These levels were increased to \$4.0 million in the December program to permit USAID to implement the key Replication of Lessons Learned (ROLL) activity initiated in FY 96, and to support the World Bank's initiative to reduce Ozone Depleting Substances.

Current activities focusing on environmental policy, NGO strengthening, and pilot projects which demonstrate new environmentally friendly technologies will be closed out by FY 98. USAID will, however, continue to support activities initiated under the Gore-Chernomyrdin Commission.

PFF OPPORTUNITIES

From the levels of enthusiasm with which the ROLL activity has been greeted, there is a clear role for continued U.S.-Russian partnership on environmental issues. USAID proposes to establish a Russian/American Foundation for a Sustainable Environment (RAFSE) as part of the PFF. The Foundation will institutionalize ongoing Russian-American collaboration: continuing to influence national environmental laws and regulations, developing and implementing new approaches and technologies to ensure that economic development is carried out in an environmentally sound manner, and continuing increased environmental awareness and information exchange.

RESOURCES TO DATE

FY 92: \$--
FY 93: \$ 6.4 million
FY 94: \$30.7 million
FY 95: \$21.4 million
FY 96: \$ 5.1 million
As of 9/30/96:
So Total Obligations: \$63.6 million
SO Pipeline: \$22.6 million
Activities with > 12 months pipeline:

- HIID, Env. Policy
- ISC, Replication of Lessons Learned
- U.S. EPA
- ISAR
- CH2MHill (Core + DO 10)

PROPOSED LEVELS

December Review Levels:

FY 97: \$5,200,000
 FY 98: \$4,200,000
 FY 99: \$1,000,000

PFF Scenario

FY 97: \$5,200,000
 FY 98: \$3,000,000
 FY 99: \$16,000,000

PFF ACTIVITIES

\$ Millions	FY 98	FY 99
Russian American Foundation for a Sustainable Environment	8	7
ROLL	1	0

SO 2.3 More Effective, Responsive, and Accountable Local Government in Selected Cities

BASELINE

No target cities hold town meetings/public hearings related to budget in 1995.

30% cost recovery for housing maintenance and utilities from user fees in 1995.

No target cities have financial management systems in 1994 to ensure accurate and reliable financial forecasting. No target cities have modern city charters defining their management responsibilities. In 1995, no cities use open hearings regularly.

The independent association of Russian cities does not engage with the Duma on changes in laws on local governments in 1994.

1996

Two target cities hold town meetings and public hearings related to budget.

34% cost recovery from user fees for maintenance and utility services.

FREEDOM SUPPORT ACT

5 target cities adopted city charters providing framework to guide city management. 14 cities have reformed financial management systems. 4 cities have institutionalized using open hearings.

18 amendments submitted to the State Duma by the independent association of Russian cities and 12 are adopted into law, providing clearer authority for local governments.

RESOURCES TO DATE

FY 93: \$4.8 million
FY 94: \$6.0 million
FY 95: \$2.5 million
FY 96: \$1.3 million
As of 9/30/96:
Total SO: \$14.6 million
Pipeline: \$1.8 million

RESULTS REVIEW

With USAID support, the local governments in Moscow, Nizhny Novgorod, Tomsk, Tver, Vladivostok, and Vladimir have taken some important steps toward improving their transparency, responsiveness and effectiveness. Public budget meetings were held in Moscow and Nizhny Novgorod in 1996. This process included publishing the city budget and inviting comments from citizens.

USAID advisors worked with the Union of Russian Cities and the Association of Siberian and Far Eastern Cities conducting training of local government officials and **developed a core group of Russian trainers in municipal finance and management**. Forty “digests” of U.S. local government “best practice” publications on topics ranging from citizen advisory boards to small enterprise development to management of public works were distributed to 96 member cities of the Union of Russian Cities and the Association.

New and improved **integrated financial management** systems were established in five cities. In Nizhny Novgorod, the whole financial management system was converted to an American-style system that provides transaction transparency, fund accountability, and audit information to international standards. In addition, a Budget Analysis and Transparency model provided 9 more cities the capability to perform simple forecasting based on trend analysis of revenues and expenditures, including graphics for public meetings.

Most of the activities contributing to the achievement of this Strategic Objective moved toward close-out in 1996 and contractor personnel are now departing various cities around the country. The success of the program will be measured by the number of cities that adopt the new governance and finance methods on a more permanent basis. Further USAID support for local government development are being folded into SOs 1.3, 2.1, and 3.2 in FY 97.

S.O. 4: CROSS-CUTTING PROGRAMS AND SPECIAL INITIATIVES

Natural Resource Management in the Russian Far East

Land-use planning and the development of biodiversity strategies for each of the two regions (krai) participating in the USAID-funded, CH2MHill-managed program are almost complete. 15 small enterprises commercializing nontimber forest products (mushrooms, birch juice) received a technology boost with U.S. equipment grants and training in marketing and business skills (coordinated with the University of Alaska-Anchorage program). Firefighting and reforestation efforts (with the help of the U.S. Forest Service) introduced new approaches: cheaper and more efficient greenhouses, new seedling growing techniques, different decision-making approach to fighting of forest fires. The Amur tiger census was completed -- fewer than 400 adults remain.

FY 98/99 requests: None

Medical Technology Transfer Activity (MTTA)

Two of the three pharmaceutical companies planning to establish GMP production of drugs in Russia have broken ground for their facilities. All have received approval for the pharmaceuticals they intend to produce. ***FY 98/99 Requests: None***

Eurasia Foundation

The Eurasia Foundation small grants program continued through 1996. The Foundation reports separately on its program and this is not repeated here. The Eurasia Foundation also implements specific activities with funding from other SOs. SO 2.2: community rule of law grants; SO 2.1, media development activities. ***FY 98 Request (PFF): \$5 million (\$7 million). FY 99 Request (PFF): \$5 million (\$4 million).***

Enterprise Funds

The U.S. Russian Investment Fund (TUSRIF) implemented a staff reduction program in 1996 and started 1997 with the possibility of transitioning management responsibility from New York to Russia. In 1996, small business lending topped \$1 million in the RFE and St. Petersburg. Direct investments at end-1996 were just over \$50 million and another \$50 million was in some stage of commitment, according to the TUSRIF report. The Lower Volga Regional Venture Fund (an EBRD Fund financed by USAID) reported that, since May 1995, equity investments worth just \$6.5 million have been completed (in three companies), but that "the banking system and taxing authorities are squeezing the life out of the business community through cumbersome regulatory rules ...and aggressive tax policies." ***FY 98 and FY 99 Requests: None.***

NIS Exchanges and Training

718 Russian professionals participated in training programs in the U.S. in 1996. Training covered all sectors. For example, 15 Russian enterprise directors completed an "Enterprise Restructuring" program conducted by the Foundation for Enterprise Development in San Diego. 12 Russians completed the "Urban Land Use and Development Program" at Howard University. ***FY 98 Request (PFF): None (\$2 million). FY 099 Request (PFF): None (\$1 million).***

Program Design and Evaluation

In 1996, PD&S funds enabled USAID/Russia to: study 103 U.S.-Russian partnership activities currently being implemented to see what could be improved; understand what was happening inside the Russian election process; hold a conference disseminating results of the ZdravReform activity; look into issues of legal education, local government, and the development of civil society in Russia; conduct an evaluation of the Civic Initiatives Project; complete another round of the comprehensive Russia Longitudinal Monitoring Survey (RLMS); and put in place a team of financial analysts to work with contractors and

grantees on financial management issues. ***FY 98 Request (PFF): \$1 million (\$1 million). FY 99 Request (PFF): \$500,000 (\$1 million).***

III. STATUS OF THE MANAGEMENT CONTRACT

USAID/Russia's first R4 was reviewed in Washington in April 1996 at a time when the outcome of the elections and Russia's commitment to continuing the economic, political, and social reform programs were in question. However, ENI management and S/NIS/C approved the substance of that R4, adding to the cabled Management Contract (Annex A) the caveat that anything could be changed at any time. A mini-program review was tentatively scheduled for August-September to re-examine the program in light of Russia's election results. As the incumbent President was returned to office in July, the urgency for this review diminished and it was not held.

However, within eight months, the contents of and agreements regarding that R4 had undergone significant change. The USAID budget level for FY 97, not including Eurasia Foundation and Enterprise Funds, was approved at the level of \$72.4 million in the R4; this was cut to \$53.8 million by the time that FY 97 started. This 26 percent drop in budget resources echoed a similar level of within-FY cuts that had been made in FY 95. In December 1996, therefore, the deferred mini-program review was undertaken in Moscow. It was, in fact, not "mini" at all. Washington was well represented and engaged in a thorough discussion of the entire portfolio.

Russia's choice of President was less important than the U.S.'s to this review. The Clinton Administration had begun, in late fall, to develop a new Partnership for Freedom (PFF) Initiative which would both request more resources for the NIS, extend the time for US assistance in the region, and revise the priorities and approaches for implementation (and, possibly, the role for USAID). Since it was not known, however, what Congressional receptivity to the PFF would be, no firm decisions regarding available funding for Russia could be taken.

The main debates of the review were, therefore, framed in the context of a continually-declining budget with final obligations in the year 2001. But near term choices dominated the discussion. There was a significant focus on changes needed to bring the "approved R4" level down to what is now the "actual FY 97" level. Concurrence was received in the Mission's proposal to close out SO 2.3, folding any continued local government initiatives into activities associated with SO 2.1. The Mission's proposal to devote only prior-year funding to SO 1.5 was also accepted. The FY 98 outlook was given a more general review. From an implementation perspective, the December program review was of greater practical importance than the R4 review that preceded it by eight months.

Given the continued uncertainty of budget levels, and given the Mission's operating assumption that it is more efficient to add funds to the budget than cut them back, the Mission is presenting in this R4 two budgets: a "base-level" budget and a "PFF Scenario" budget. The base-level budget is about \$2.3 million less than what was approved in last year's R4 budget for FY 98, and \$14 million less than was programmed for FY 99. The PFF Scenario budget is that which has been provided to the Mission as the "mark" for FY 98 and FY 99. From the Mission's perspective, an important issue for the 1997 R4 review will be the utility of the Management Contract, and perhaps even the R4 review, given the reality of the situation.

IV. FINANCIAL PLAN

PROGRAM FUNDING BY OBJECTIVE

December Review Scenario (in \$ millions)

SO	FY 97	FY 98	FY99
1.2	5.75	5.00	1.50
1.3	16.29	11.95	5.00
1.4	2.90	1.20	1.00
1.5	.30	.20	--
2.1	7.73	6.00	2.50
2.2	2.80	1.00	1.00
2.3	--	--	--
3.2	3.43	3.15	2.60
3.3	5.20	4.20	1.00
4.0	9.41	6.00	5.40
Total	53.80	38.70	20.00

PFF Scenario (in \$ millions)

SO	FY 97	FY 98	FY99
1.2	5.75	9.00	8.50
1.3	16.29	38.00	31.00
1.4	2.90	19.30	13.75
1.5	.30	.20	--
2.1	7.73	24.65	27.00
2.2	2.80	7.00	5.90
2.3	--	--	--
3.2	3.43	3.50	2.70
3.3	5.20	3.00	16.00
4.0	9.41	10.35	8.25
Total	53.80	115.00	113.10

OE AND WORKFORCE TABLES

OE TABLE (\$'000)

Category	FY 97	FY 98	FY 99 Req	FY 99 Target
USDH	602.7	777.7	854.1	979.1
USPSC	325.6	309.6	318.8	318.8
FSNPSC	1343.2	1311.1	1375.2	4458.3
Travel	316.8	332.6	349.3	349.3
Housing	1354.5	1364.1	1452.0	1452.0
Office Operations	741.0	1736.1	1615.3	1615.3
Procurement	266.4	329.7	404.0	404.0
Total	4950.2	6160.9	6368.7	6576.8

WORKFORCE TABLE (FTEs)

Category	FY97	FY98	FY99 Req.	FY99 Targ.
OE FUNDED				
USDH	19	19	19	14
USPSC				
-- Local	5	5	5	3
-- Offshore	2	2	2	2
FSNPSC	77	77	77	45
PROGRAM FUNDED				
USPSC				
-- Local	18	18	18	14
--Offshore	8	8	8	6
FSNPSC	47	47	47	32

FREEDOM SUPPORT ACT

TOTAL	177	176	176	114
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GLOBAL FIELD SUPPORT

Mission SO Priority	Field Support: Activity FY97 FY98 FY99					
1.3	Agriculture Support	medium	\$200	\$200	TBD	
4.1	NET Training	high	\$2,000	TBD	TBD	
3.2	Women's Reproductive Health	high		\$700	\$700	\$700
2.2	National Center for State Courts	MEDIUM	TBD	TBD	TBD	

ENVIRONMENTAL COMPLIANCE

There are no issues related to the implementation of Initial Environmental Examinations or Environmental Assessments.

Funds earmarked for use in the Sakhalin Island initiative may be used to help the Government of the island develop environmental analysis techniques. Other new activities planned by USAID over the next three fiscal years do not require EAs and those requiring IEE's will be identified.

